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MONTEREY, CALIFORNIA

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JOINT APPLIED PROJECT

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STRATEGIC SOURCING  
IN THE ARMY

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**By: Darnell Folks**  
**September 2013**

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**STRATEGIC SOURCING IN THE ARMY**

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Submitted in partial fulfillment of the requirements for the degree of

**MASTER OF SCIENCE IN CONTRACT MANAGEMENT**

from the

**NAVAL POSTGRADUATE SCHOOL  
September 2013**

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# **STRATEGIC SOURCING IN THE ARMY**

## **ABSTRACT**

The objective of this project is to examine how the Army is utilizing strategic sourcing as an effective process for getting the best overall value for acquiring goods and services. An analysis will be done to determine if the Army is using Strategic Sourcing as intended by the Office of Management and Budget (OMB) initial implementation. This will be examined to determine if strategic sourcing will contribute to the efficiency of the acquisition process. Acquisitions will be examined to determine if strategic sourcing is meeting the needs of the organization and alleviating redundancy in the acquisition process. The discussions will also look at how important internal customer requirements and external marketplace intelligence roles are in the strategic sourcing process. As a result of this project, the Army will better understand the areas that may need improvement and areas that have been working effectively. Future recommendations for research will be provided for consideration.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

ACA	Army Contracting Agency
ACC	Army Contracting Command
ACOM	Army Commands
AMC	Army Material Command
ATL	Acquisition Technology and Logistics
BBP	Better Buying Power
BRAC	Base Realignment
CCB	Contract Control Board
C-E LCMC	Communications-Electronics Life Cycle Management Command
CHESS	Computer Hardware Enterprise Software, and Solutions
CIO	Chief Information Officer
DARPA	Defense Advanced Research Projects Agency
DAU	Defense Acquisition University
DBB	Defense Business Board
DCAA	Defense Contract Audit Agency
DCMA	Defense Contract Management Agency
DFARS	Department of Defense Federal Acquisition Regulation Supplement
DISA	Defense Information Systems Agency
DLA	Defense Logistics Agency
DoD	Department of Defense
DPAP	Defense Procurement and Acquisition Policy
DWSS	DoD Wide Strategic Sourcing Program
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System-Next Generation
FPI	Fixed-Price Incentive
FSSI	Federal Strategic Sourcing Initiative
FY	Fiscal Year
GAO	Government Accountability Office
GCSS	Global Combat Support System
GFEBs	General Fund Enterprise Business System
GPE	Government-Wide Point of Entry

IDE	Integrated Data Environment
IG	Inspector General
IMA	Installation Management Agency
IMCOM	Installation Command
IPT	Integrated Product Team
IT	Information Technology
MAC	Multiple Award Contracts
MILDEP	Military Department
NPS	Naval Postgraduate School
OFPP	Office of Federal Procurement
OMB	Office of Management and Budget
OSD	Office of Secretary of Defense
PALT	Procurement Administrative Lead Time
PSC	Product Service Codes
R23G	Rapid Response 3rd Generation
S3	Strategic Services Sourcing
SSDB	Strategic Sourcing Director's Board
SSLC	Strategic Sourcing Leadership Council
STAMIS	Standard Army Management Information Systems
T&M	Time and Material
USD	Under Secretary of Defense

## **I. INTRODUCTION**

### **A. PURPOSE**

The purpose of this project is to review the implementation of strategic sourcing by the Army, and if after establishing what strategic sourcing is being done, investigate and determine what areas are effective and efficient, and what areas may need improvement. Executive Order 13589 was issued by the president to promote efficient spending and direct agency heads to take even more aggressive steps to ensure the government is a good steward of taxpayer money.

Department of Defense (DoD) is the largest purchasing organization in the world, spending more than \$370B on goods and services. On May 20, 2005, Executive Office of the President, Office of Management and Budget (OMB) implemented strategic sourcing as the collaborative and structured process of analyzing an organization spending and using this information to make business decisions that will result in a better way of acquiring goods and services more effectively and efficiently. The Under Secretary of Defense (USD) for Acquisition, Technology and Logistics (ATL) issued the “Better Buying Power memo” (April 2013) mandates restoring productivity and affordability in defense spending which translates to doing more with less. Strategic sourcing is the process, which will accomplish reducing costs and achieving effectiveness.

The report will address how strategic sourcing is implemented in the Army as intended by the initial Office of Management and Budget (OMB) memorandum issued May 20, 2005. A sampling of the Army’s strategic sourcing initiatives will be reviewed and discussed for analysis to determine areas of effectiveness and areas that may need improvement. After collecting and analyzing data, a summary of the results will be reported to include possible recommendations for improvement by the army.

Strategic sourcing is a process for analyzing an organizations spending and using the results to develop strategies for purchasing commodities and services more efficiently

and effectively. It requires the integration of customer needs, market conditions, organization goals and objectives. The commercial sector has been embracing this process in the past decade.

## **B. SCOPE**

Strategic Sourcing is believed to increase effectiveness and efficiencies in the acquisition process. It is understandable that the government looks to the commercial sector for guidance because the commercial sector has been using the process of strategic sourcing for a decade or more. In addition, the commercial sector has accumulated lessons learned, best practices, etc., from the experience involved in implementing and utilizing the Strategic Sourcing process.

In April 2013, GAO released a report titled *Strategic Sourcing, Leading Commercial Practices Can Help Federal Agencies Increase Savings When Acquiring Services*. The report also discusses a continuous lack of resources have proven to be a challenge, and strategic sourcing has been considered to be the answer to assist with this challenge.

Strategic sourcing has often been look at as primarily a way to improve acquisition processes versus cost savings. The improvement of acquisition processes may not necessarily create savings unless that is part of the equation when applying strategic sourcing. Department of Defense (DoD) has given each military department (MILDEP) latitude in developing its own approach and timetable in implementing strategic sourcing.

## **C. RESEARCH QUESTIONS**

This research attempts to answer the following primary and secondary questions as they relate to strategic sourcing in the Army.

### **1. Primary**

Is the Army using strategic sourcing as intended by the OMB initial implementation? See the Appendix.

## **2. Secondary**

- What areas are effective?
- What areas may need improvement?

## **D. SUMMARY**

Based on a 2012 GAO report titled *Strategic Sourcing, Improved and Expanded Use Could Save Billions in Annual Procurement Costs*, the DoD has not fully embraced the strategic sourcing approach. This report indicates it may be due to socio-economics requirements, which may add some constraints, changes in organizations such as base realignment (BRAC), budget woes, lack of resources, leadership and lack of communication with supply base. Half of procurement spending in 2011 was services but strategic sourcing efforts are concentrated on products. It may be difficult to standardize some requirements for services.

Currently, the Army is engaged in several Strategic Sourcing initiatives, including leading the DoD-Wide Wireless Devices initiative. The Army is also conducting strategic sourcing within the Army Materiel Command (AMC), as well as in the Army Installation Management Agency (IMA). A sampling of strategic sourcing procurements will be reviewed for analysis to determine areas of effectiveness and areas that may need improvement.

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## **II. BACKGROUND**

### **A. LITERATURE REVIEW**

This project will review available literature from GAO reports to gain an understanding of the challenges the Army faced with strategic sourcing. It will examine the “Better Buying Power” memo dated April 2013 from USD ATL to determine the impact on strategic sourcing. OMB guidance will be reviewed for the guidelines and purpose of strategic sourcing. DoD reports for acquisition status, spend analysis, management and statistics will assist with measuring performance. Other DoD reports, and several other studies in the area of strategic sourcing are discussed, as well. The purpose of this review is to gain a better understanding of the underlying processes involved with strategic sourcing. Recent reports sponsored by the Naval Postgraduate School on strategic sourcing will also demonstrate the growing body of knowledge in strategic sourcing upon which this research builds.

### **B. HISTORY**

In May 2005, the President Office of Management and Budget (OMB) required each federal agency to identify at least three commodities for strategic sourcing and report annually on their progress. In December 2005, the Assistant Deputy Under Secretary of Defense for Strategic Sourcing and Acquisition Processes provided leadership and visibility to develop department-wide strategic sourcing. Effective 1 October 2006, DoD senior leadership transferred the strategic sourcing functionality responsibility to Director, Defense Procurement Acquisition Policy (DPAP) in the office of Deputy Under Secretary of Defense, Acquisition & Technology. The Strategic Sourcing Director’s Board (SSDB), which is chaired by DPAP serves as a forum to provide direction for strategic sourcing and monitoring and improving the DoD-wide program. The board includes membership from the DoD chief information officer (CIO), military departments, Defense Logistics Agency (DLA), and Defense Information Systems Agency (DISA). Board advisors represent additional agencies and organizations. On December 5, 2012, the deputy director for management, OMB, the Strategic Sourcing

Leadership Council (SSLC) was formed as a result of the OMB memorandum of same date which reiterated the current administration commitment to providing best value to the taxpayer (DPAP Defense Procurement and Acquisition Policy, 2013a). The Strategic Sourcing Leadership Council (SSLC) chaired by the Administrator for Federal Procurement Policy and consisted of representatives from the Departments of Defense (DoD), Energy, Health and Human Services, Homeland Security, Veterans Affairs, the General Services Administration, the National Aeronautics and Space Administration, and other agencies as designated by the Administrator. DoD's participation on the SSLC includes representatives from the Office of the Secretary of Defense; from each of the Departments of the Army, the Navy, and the Air Force; and from the Defense Logistics Agency. In addition, because small businesses play a vital role in federal contracting, the SSLC includes a representative from the Small Business Administration.

The SSLC was required to submit to OMB recommendations for management strategies for specific goods and services including IT commodities. Recommendations were due in March 2013 and were to identify the following:

- Identify at least five products and/or services for which new government-wide acquisition vehicles or management approaches should be developed and made mandatory, to the maximum extent practicable, for the SSLC agencies;
- For these identified commodities and solutions, provide a supporting spend analysis, estimate savings opportunities, and define metrics for tracking progress;
- Identify existing contract vehicles and relevant contract renewal dates that could be used to develop transition strategies to the new solutions;
- Identify agencies that should serve as "executive agents" to lead the development of each of these new solutions (with the assistance of interagency teams comprised of agency experts);
- Propose plans and management strategies to maximize the use of each strategic sourcing effort;
- Propose vendor management or other strategies that could be used to reduce the variability in the prices paid for similar goods and services, where the development of new government-wide vehicles may not be immediately feasible; and

- Propose other savings strategies that could be implemented, such as adapting existing vehicles (e.g., Multiple Award Schedules, GWACs, and Multi-agency Contracts) to ensure that certain characteristics of strategic sourcing are followed. (Memo from OMB dated December 5, 2012, page 3)

The SSLC agencies were tasked to promote, to the maximum extent practicable, sound strategic sourcing practices within their agencies. For example, each SSLC agency shall establish an internal cross-functional strategic sourcing council to oversee the agency's related activities. These efforts include, but are not limited to, issuing and enforcing mandatory use policies for government wide and agency wide strategic sourcing solutions to the extent appropriate, providing acquisition and management data to the General Services Administration and other executive agents in support of the development of new solutions, and tracking spending and savings information for use by OMB, as further directed by the Office of Federal Procurement Policy.

The specific characteristics of strategic sourcing vehicles will vary according to the product or service being sourced (OMB). However, at a minimum, government-wide vehicles shall:

- Reflect input from a large number of potential agency users -especially the largest likely users -regarding customer demand for the goods and services being considered, the acquisition strategy (including contract pricing, delivery and other terms and conditions, and performance requirements), and the commodity management approach;
- Ensure that the Federal government gets credit for all sales provided under that vehicle, regardless of payment method, unless the sales are identified with other government contracts, so that volume-based pricing discounts can be applied;
- Include tiered pricing, or other appropriate strategies, to reduce prices as cumulative sales volume increases;
- Require vendors to provide sufficient pricing, usage, and performance data to enable the government to improve their commodity management practices on an ongoing basis; and
- Be supported by a contract administration plan that demonstrates commitment by the executive agent to perform active commodity management and monitor vendor performance and pricing changes throughout the life of the contract to ensure the benefits of strategic sourcing are maintained.

- Maximizing small business utilization in Federal contracting remains a top priority of the Obama Administration. To the maximum extent practicable, all strategic sourcing opportunities shall seek to increase participation by small businesses. To that end, all proposed strategic sourcing agreements must baseline small business use under current strategies and set goals to meet or exceed that baseline participation under the new strategic sourcing vehicles.

The Office of Federal Procurement Policy (OFPP) requires periodic Acquisition Status meetings with agencies to discuss their acquisition processes, including buying smarter with government-wide and agency-wide strategic sourcing. The purpose of these reviews is to provide an understanding of where the agency is having success, where it is having difficulty, and where OFPP can assist. While DoD's reviews are not all-inclusive with regard to its strategic sourcing initiatives, they do provide useful highlights of the Department's strategic sourcing activities which will be discussed in this report.

The Office of the Assistant Secretary of the Army, Acquisition, Logistic, Technology [OASA(ALT)] stated the following mission and vision statement in their Strategic Plan FY2012–2016 (p. i).

Vision is stated:

Highly efficient, effective, agile organization responsible for acquiring, developing, delivering, supporting and sustaining the most capable affordable systems and services for our Soldiers:

- Enabling our Soldiers to dominate the battlespace, safely and securely
- Enabling our Soldiers to achieve first look, first strike advantage with unprecedented speed and accuracy

Mission is stated:

Provide our Soldiers a decisive advantage in any mission by developing, acquiring, fielding and sustaining the world's best equipment and services and leveraging technologies and capabilities to meet current and future Army needs.

These statements are aligned with the goals and objectives of Strategic Sourcing because of resources and cost restraints.

### **C. ARMY'S APPROACH TO STRATEGIC SOURCING**

Strategic Sourcing in the Army began between 2000 and 2003 as a series of small-decentralized strategic sourcing “pilot” projects at several Army acquisition organizations. Interest and organized participation accelerated in 2004 and 2005 with Army’s involvement and leadership of the Defense-Wide Strategic Sourcing (DWSS) Wireless Commodity Team. The DWSS Wireless Commodity Team obtained valuable experience from this effort and together with the early pilot projects helped convince senior federal procurement executives and Army leadership that the principles of strategic sourcing could be successfully applied within the constraints of the FAR and the Army’s procurement systems (FY08 DoD Report on Strategic Sourcing). Army strategic sourcing efforts expanded first at many of the Army’s acquisition organizations where clear “commodity expertise” is evident.

Medical products, services, and research are exclusively managed and sourced through the Army Medical Command. Major weapon systems and equipment, material, and related logistics support are primarily managed and sourced through the Army Material Command. Garrison and base operations support for Army installations is managed by the Army Installation Command (IMCOM) with procurement support provided by the Army Contracting.

Within this management structure, the Army is building internal strategic sourcing expertise and learning to implement strategic sourcing in Army Commands (ACOM). In 2008, Army continued to build upon these initial successes as more and more Army Commands (ACOM) initiated Strategic Sourcing efforts. Currently, the list of Army Commands that have active Strategic Sourcing teams or that have initiated Strategic Sourcing Opportunity analyses includes most of the major Army Commands (FY08 DoD Report on Strategic Sourcing).

The Army has developed strong expertise in identifying opportunities and leading them through the contract award. A more organized, systematic and collaborative approach to strategic sourcing across the Army is critical for capturing greater value from the enormous amount of dollars being spent and maximizing the use of government

resources. A strategic sourcing program may be beneficial to the supply base for all Army agencies but it can in the process reduce the amount of Army resources required to support strategic sourcing on a per commodity basis. Army Commands should be focused on the sourcing of goods and services unique to their mission (FY08 DoD Report on Strategic Sourcing).

#### **D. ISSUES IDENTIFIED**

Non-involvement by stakeholders and securing leadership support at the start of the project can have a tremendous impact on the project outcome and overall team experience.

Coordination of strategic sourcing efforts throughout the Army is important. This continues to be an issue because of one command not aware of another command's strategic sourcing. The Army recognized this and had proposed an Army-wide Strategic Sourcing Governance Structure (FY2007), which would help identify and coordinate strategic sourcing procurements. This proposed structure outlines the key roles and responsibilities so that efforts can be coordinated across the Army.

Based on GAO report 12-919 September 2012, the Army does not have a formal strategic sourcing program office.

Obtaining reliable and detailed data on spending and applying this approach to acquiring services, has presented challenges as indicated in GAO report 13-417 April 25, 2013.

Establishing metrics by measuring costs to determine progress or success is an area of concern. A key element in strategic sourcing initiatives is metrics, baseline costs, projected costs, and cost avoidance/savings. GAO found that sustained leadership and effective metrics are important factors to implementing strategic sourcing.

Insufficient resources—GAO also recommend that the Army take a look at their resources and determine if they were sufficient to fulfill the strategic sourcing mission. Contracting efficiencies can be realized when considering the shortage of acquisition workforce. This can drive time and cost down by using others' contracts that exist to

procure goods and services for the organization. Due to budget restraints, resources are reallocated and sharing would be considered a necessity. In this process, special emphasis must be given to small businesses by assessing any impact that this may have as a result of decisions made.

#### **E. OVERVIEW OF THE STRATEGIC SOURCING PROCESS**

GAO report on strategic sourcing (2012) states that a strategic sourcing effort begins with an opportunity assessment—an analysis of spending and the identification of products and services for which strategic sourcing should be implemented. Spend analysis provides knowledge about how much is being spent for which products and services, who the buyers are, who the suppliers are, and where the opportunities are for leveraged buying and other tactics to save money and improve performance. Data on spending should be analyzed on a continual basis to support decisions on strategic sourcing and procurement management in areas such as cost cutting, streamlining operations, and reducing the number of suppliers. Based on this analysis, organizations evaluate and prioritize commodities to create a list of top products or services to target for strategic sourcing. This list usually includes the products or services on which most of the organization's spending is focused. In addition to spending, criteria such as potential savings and implementation are considered.

Once a product or service is selected for strategic sourcing, a standardized process is followed to develop, implement, and manage the sourcing strategy for that product or service. GAO also recommends that the Army take a look at their resources and determine if they were sufficient to fulfill the strategic sourcing mission.

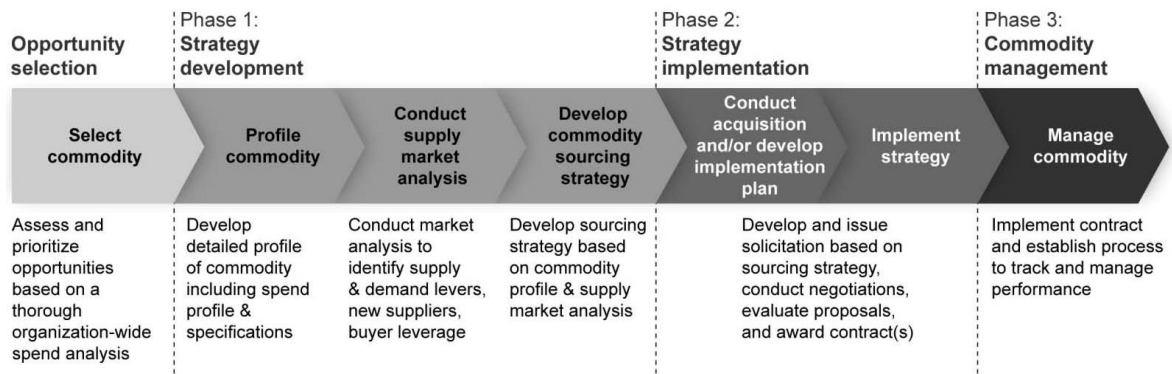


Figure 1. Overview of Strategic Sourcing Process  
(From U.S. Government Accountability Office, 2012)

## F. SUMMARY

Army senior leadership saw strategic sourcing as a way to do better contracting, reduce cost, and achieve consistency in services. Based on the Army Annual Report on Strategic Sourcing Fiscal Year (FY) 2006, the army realized a savings of \$75M. Department of the Army, Installation Management Command (IMCOM) conducted an analysis and identified environmental services as one of five spending categories appropriate for strategic sourcing. The findings based on an analysis of the supply base in 2007, indicate that they could leverage their buying power for environmental services because the market consists of several thousand companies in this industry, which would generate considerable competition (IMCOM Journal).

Based on GAO report *Strategic Sourcing* in (2012), the Army spent more than \$125 billion on products and services in FY2011, but reported that only \$280 million, or less than a quarter of one percent of procurement spending, was strategically sourced.

### **III. MEASURING EFFECTIVENESS AND EFFICIENCY**

#### **A. INTRODUCTION**

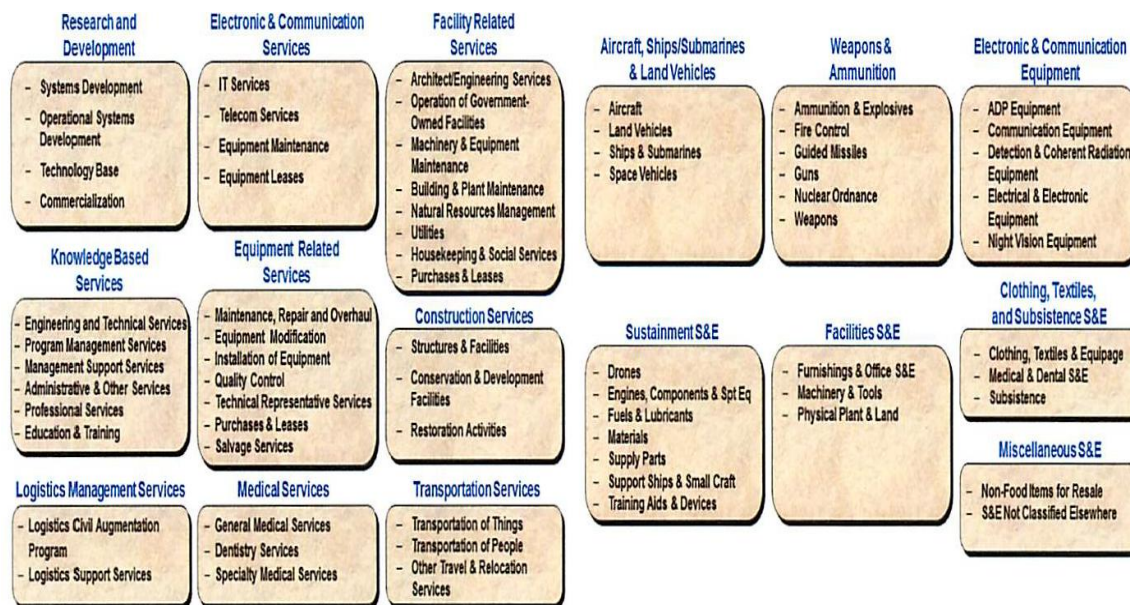
The objective of discussing spend analysis, supply management and the acquisition process is because of the importance they play in strategic sourcing. This is an area that needs to be measured for effectiveness and efficiency in order to have a good strategic sourcing structure.

#### **B. SPEND ANALYSIS**

Spend analysis is one of the tools the U.S. Department of Defense and other federal agencies are using to gain critical insights into the procurement history and spend patterns for purchased goods and services. A spend analysis contributes and forms the foundation for identifying valuable strategic sourcing improvement opportunities. A spend analysis looks at how much was spent, number of vendors, number of transactions, which agencies, then determine how many suppliers make up the largest portion of spend, and assess the average spend per supplier. It also categorizes to determine commodities unique to the mission of the agency and determine complexity.

As a result of spend analysis, costs can be reduced by using existing contracts, vs. going out to the open market, using standardization for purchasing, negotiate with suppliers for large volumes of commodities, consolidate by reducing number of suppliers, and standardizing specifications which can be difficult for services.

DoD organizes its spend using a taxonomy based on product service codes (PSC), which is used by all federal agencies for identifying and classifying all services and supplies and equipment being purchased. The spend data is captured via Federal Procurement Data System-Next Generation (FPDS-NG). This supports Strategic Sourcing and the Better Buying Power Initiatives. It is supposed to ensure consistency across DoD and capture spend based on practices and behaviors.



Product and Service Codes Organized into

9 Services Portfolio Groups and 40 Services Portfolios ...

... and 7 S&E Portfolio Groups and 30 S&E Portfolios

Figure 2. DoD Acquisition of Services, Supplies and Equipment Taxonomy (From Office of the Under Secretary of Defense, Acquisition, Technology, and Logistics, 2012)

Based on the FY2012 Spend Analysis for Services, Supplies and Equipment issued May 7, 2013, the Army is the biggest spender in four of nine portfolio groups. The groups are Knowledge Based Services, Logistics Management Services, Facility Related Services and Construction Services. The Army represented 34.9/\$66.6B of total DoD spend.

The Army spend for services has been showing a decline since 2008 from \$89B to \$67B in FY2012. The spend for supplies and equipment also has been declining since 2008 from \$68B to \$36B in FY2012.

FPDS-NG was used to collect data, which was certified by OMB, OFPP on Jan. 14, 2013. Data also represented interagency spend.

The spend analysis must be assess so that the majority of spend can be determined and recommendations made on commodities that are sourcable within the specified industry and risks are evaluated.

## **C. SUPPLY MANAGEMENT**

Supply management is the active management of supply chain activities to maximize customer value and achieve a sustainable competitive advantage. It represents a conscious effort to develop and run supply chains in the most effective & efficient ways possible. Supply chain activities cover everything from product development, sourcing, production, and logistics. An information system is needed to coordinate the supply chain activities.

The Army has been improving there Global Combat Support System (GCSS) which was established in 2007 (GCSS MG Wyche). This single unified logistics system was developed with the help of Northrup Grumman. This was done to ensure that troops were properly equipped during wartime. The ability to track orders was non-existent which created massive inefficiencies. The GCSS will allow users to track parts and manage costs associated with sustainment. GCSS is managed by the Army Program Executive Office for Enterprise Information Systems and is currently in an initial test phase at Fort Bliss, TX. It is expected that testing will be completed in two phases between 2013 and 2014 and 2014 and 2017. It will eventually be accessible by internet.

GCSS replaces the Standard Army Management Information Systems (STAMISs), which consisted of 12 separate logistics systems. GCSS-Army operates in concert with the General Fund Enterprise Business System (GFEBS), which integrates logistics and finance capability. This integration of logistics and financial systems is expected to produce an auditable system of record for commanders to ensure that they are making maximum use of their resources to improve readiness for the warfighter. GCSS is a web-based system, which will improved equipment management throughout the life cycle, visibility of the supply pipeline, reporting for planning, execution and readiness, and provide near real-time data. Program Offices will need to utilize system when preparing an opportunity assessment.

Good supply management and strengthening the industrial base is important because industry is a partner in the defense acquisition enterprise. DoD could not equip and support the warfighters without the industrial base. A healthy industrial base means a

profitable industrial base, but it also means a lean, efficient base that provides good value for the taxpayers' defense investments and increases in productivity over time. DoD will execute contracts with industry which include appropriate incentives and drive fair business deals which protect the taxpayer's interest while providing industry with reasonable profit opportunities and without putting industry at unacceptable risk.

#### **D. ACQUISITION PROCESS**

During the Acquisition process, consideration must be given to partnering with small businesses. An effort has to be made to include small businesses in the decision-making process during the early stage of planning. Strategic Sourcing should continue to maintain small business goals.

It is believed that strategic sourcing may speed up the acquisition process. The benefits and risks must be weighed when preparing strategy and contract type and the decision must be made based on providing the most value to the government.

The Army represented 48.7% of total spend using Time and Material (T&M) contract type for FY2012 (DoD Spend Analysis). Army also spends using mostly Delivery Orders.

Strategic Sourcing is believed to decrease redundancy, whereby same products and services are continually procured without a database that links them for easy access for tracking.

The Army has led on the following DoD Strategic Sourcing procurements:

- AbilityOne Program Contract Closeout Services (OSD)
- DoD Language Interpretation and Translation Enterprises (DLITE)(OSD)
- Logistics Civil Augmentation Program (LOGCAP)(OSD)
- Army Computer Hardware Enterprise Software, and Solutions(CHESS) (OSD)
- Army Contracting Command (ACC) awarded a three-year joint enterprise licensing agreement (January 2013) to provide information technology (IT) products to the Army, Air Force and Defense Information Systems Agency (DISA). The Army expects a cost avoidance of \$70M.(DPAP 2013 b)

- Army's Communications-Electronics Life Cycle Management Command (C-E LCMC) IDIQ/delivery order award of Strategic Services Sourcing (S3) contract provides logistics, engineering and business operations support services (Booz Allen Hamilton, n.d.b.)
- Army's Communications-Electronics Life Cycle Management Command (C-E LCMC) IDIQ/delivery order award of Rapid Response 3rd Generation (R23G) provides rapid award of urgent task orders for engineering, test and evaluation, technical data management and other acquisition support services (Booz Allen Hamilton, n.d.a.)

The Better Buying Power (BBP) Initiative (OUSD ATL Memo April 24, 2013) further enforces the use of Strategic Sourcing. GAO recommends incorporating BBP to achieve mission of Strategic Sourcing.

The following is a synopsis of the BBP OUSD ATL memo dated April 24, 2013 seven initiatives.

### **1. Achieve Affordable Programs**

Mandate affordability as a requirement and make sure it is enforced. This will be necessary due to expected budget restraints. Program Offices senior leadership will need to play a significant role in this requirement.

### **2. Control Costs throughout the Product Lifecycle**

Implement "should cost" based management. By understanding what the item should cost, you can better understand the price you should be paying once a fair and reasonable profit is applied. Organizations that use this technique have realized extensive cost savings.

### **3. Incentivize Productivity and Innovation in Industry and Government**

Align profitability more tightly with Department goals. Incentives should be provided to industry to ensure that the government has a successful outcome as well as industry maintaining a fair and reasonable profitability.

#### **4. Eliminate Unproductive Processes and Bureaucracy**

Reduce frequency of higher headquarters level reviews. Sometimes reviews can add additional burden on the acquisition process time. This will need to be assessed in order to improved the timeliness and determine if any value is added as a result of multiple reviews.

#### **5. Promote Effective Competition**

Emphasizing competition strategies and creating and maintaining competitive environments. A competitive environment motivates industry to be more innovated in delivering cost effective solutions to the government. Program managers will need to recognize that competition starts at the inception of the requirement. Market research is essential in this process. Small businesses should be included as part of the overall strategic sourcing program and goals should be establish.

#### **6. Improve Tradecraft in Acquisition of Services**

Contracted services continue to represent approximately 50 percent of the DoD's total contract spending. Strategic Sourcing is one area that could be expanded more to be use for acquisition of services. It is necessary for those responsible for managing service acquisitions develop and initiate training for all stakeholders in this process.

#### **7. Improve the Professionalism of the Total Acquisition Workforce**

Establish higher standards for key leadership positions. As the complexity of contracting increase, focus must be on improving the capability of the acquisition workforce. Acquisition professionals must have the tools and skill sets they need to perform their job.

Based on the DoD FY2013 Budget Request issued February 2012, the BBP initiative is the driving force in providing more efficient and effective use of agency resources and programs.

## **E. SUMMARY**

Based on the organizations needs, a supply base market analysis must be conducted. This is critical for determining the direction of strategic sourcing. Supply management is the key to getting the best value for products and services.

The findings of the FY2011 Defense Business Board Task Group report will be analyzed, which are based on discussions and collaborations between MILDEP and Corporate leaders. This information in addition to the sampling of Army strategic sourcing procurements will be reviewed and used to assess the effectiveness of strategic sourcing and areas that may need improvements. The best practices of corporate leaders will also be reviewed. The Better Buying Power initiative and how it is integrated into strategic sourcing will be reviewed to determine if it has significant impact on the acquisition process. The military departments and defense agencies must be accountable to achieve strategic sourcing milestones and results that deliver process improvement and cost reduction.

The FY2012 Spend data will be looked at to determine whether or not the results are being used to better manage procurements.

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## **IV. ANALYSIS OF RESEARCH DATA**

### **A. INTRODUCTION**

Limited funding was provided to the Army and other MILDEPs in FY2007 to establish strategic governance structures (U.S. Government Accountability Office, 2012). Collaboration between contracting activities allows DoD to leverage spend and reduce duplication of effort. Leveraging spend is data driven and is relied upon for decision making.

Internal customer requirements and external market intelligence to include socio-economic objectives must be considered. Strategic sourcing is a continually improving analytical process (DPAP Defense Procurement and Acquisition Policy, 2013c).

### **B. STRENGTHS**

The Army has been engaged in strategic sourcing initiatives that were individual efforts at various commands. The Army has experience in strategic sourcing, which have been communicated throughout the commands.

Market research as it pertains to strategic sourcing is a strength. Market research is necessary to maximize competition, drive innovation, quality and cost. The BBP initiative emphasizes the importance of creating and maintaining a competitive environment.

Market research is a critical area in the strategic sourcing of products and services for assessing an opportunity. Small businesses are essential to strategic sourcing and can help drive competition. Although Federal Acquisition Regulations (FAR) Part 10 does not address market research relative to strategic sourcing, competition assures leverage. Based on a review of two of the Army Contracting Command's strategic sourced procurements for services, competition was significant and small businesses were included. FY2011 DBB Task Group found that current strategic sourcing initiatives focus on market research and the front-end analysis of spending patterns. Commercial sectors

increase competition by developing new suppliers or reducing requirements complexity, which could allow more suppliers to compete in order to leverage scale and competition, which lowers costs.

Performance-based contracting emphasizes output and outcomes, which should increase quality, cost savings and customer satisfaction. This is difficult when applying to services where the results are not known. In addition to complying with applicable acquisition regulations, contracting officers must also re-engineer the procedures to accommodate strategic sourcing. It is easier to source supplies than services because there are more suppliers and the outcome is known. When procuring services in the Army, the outcome of a research and development requirement may not be known because you may be procuring an innovative idea/technology.

Department of Army 2013 Annual Report on Business Transformation states that service contracts account for roughly 21% of every dollar Army spends. Strategic sourcing efforts include providing a single focal point for service acquisition at each command and staff element, consolidating acquisition requirements generation, post-award management and dedicated contracting activities, aggregating cost, performance and schedule data for all service contracts to ensure management visibility, ensuring subject matter experts are aligned with the processes and reducing cycle time from requirement generation to contract execution.

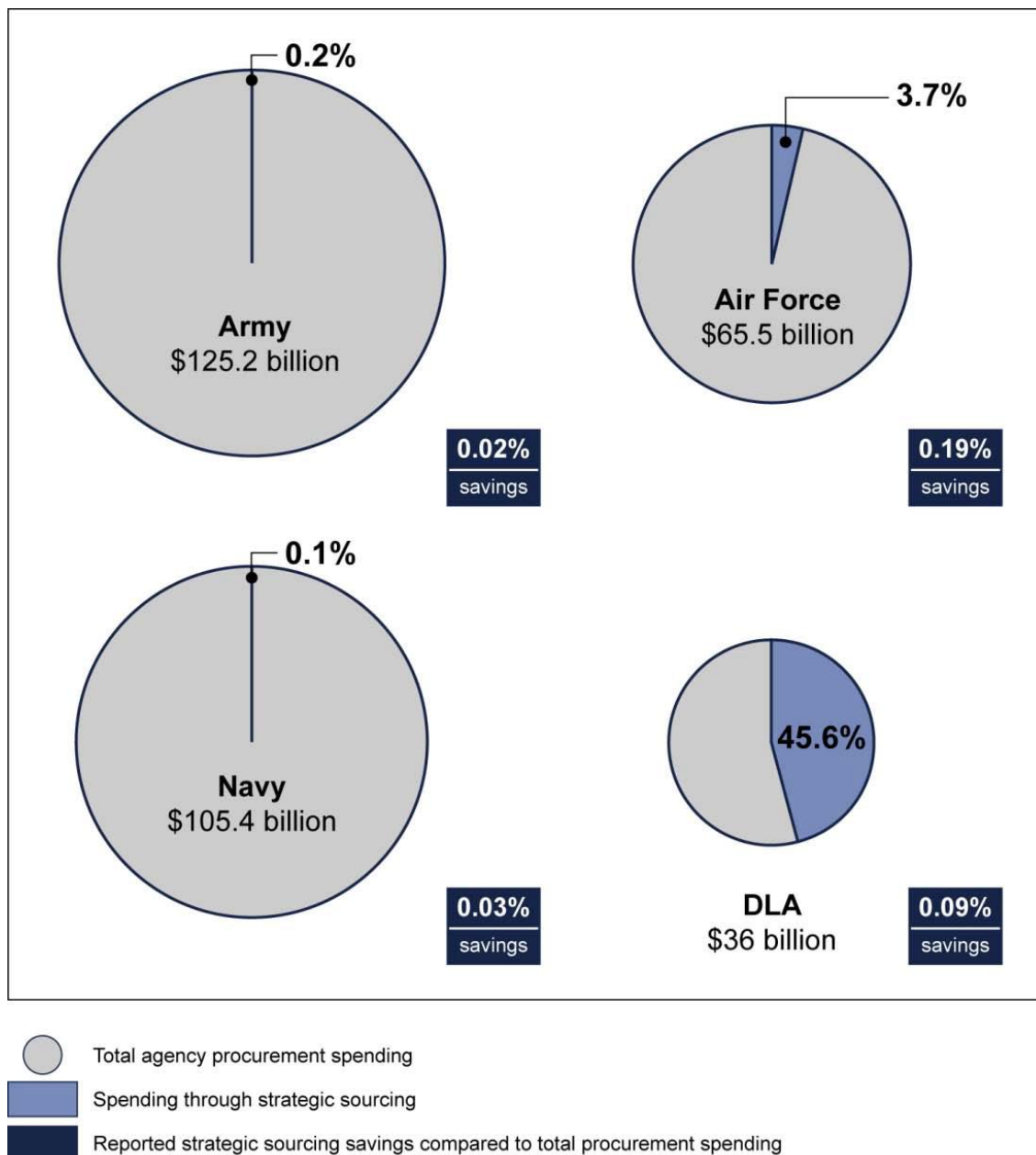
## **C. WEAKNESSES**

The spend analysis is useful in evaluating trends, such as spend for socio-economic awards, competitive awards, interagency contracting, and used for future planning for sourcing commodities in the future. The data used to develop this analysis is from the Federal Procurement Data System–Next Generation (FPDS-NG). It is the only government-wide system that tracks federal procurement spending. There have been some questions about the accuracy and timeliness of the data.

In 1972, FPDS was developed in response to the Commission on Government Procurements discovery of no agencies collecting and reporting on what was being spent and bought. Congress needed this information to make informed decisions on public

policies. The executive branch needed it to determine policy on managing the procurement process. Agencies needed it to gauge and improve their processes and procedures. Due to increase in data, system was expanded in 2004 and name changed to FPDS-NG. Despite improvements over the past years, mis-categorization of data continues to be a challenge and is due mainly to human error. Guidance was issued to correct these problems by the Office of Federal Procurement Policy (OFPP) in 2011, which provides instructions for calculating and reporting the accuracy and completeness of data submitted to FPDS-NG. The most recent information available regarding FPDS-NG data shows that government-wide, the four-year average (FY2008–FY2011) for completeness was 98.3% and for sample accuracy 94.0% (CSIS).

Based on DoD FY2012 Spend Analysis for Services, Supplies and Equipment issued May 7, 2013, the Army is the biggest spender in 4 of 9 portfolio groups. The groups are Knowledge Based Services, Logistics Management Services, Facility Related Services and Construction Services. The Army represented 34.9%/\$66.6B of total DoD spend. Figure 3 shows that only 0.2% spending was through strategic sourcing which only represent 0.02% saving. Using savings through strategic sourcing can be a metric to measure progress and success if you have established goals. The question remains how can these savings be captured accurately (U.S. Government Accountability Office, 2013).



Source: GAO analysis of FPDS and agency data.

Figure 3. Total procurement spending, and spending via SS. Total savings reported by DoD FY2012 Spend Analysis (From DPAP Defense Procurement and Acquisition Policy, 2013b)

Failure to set goals is due to the difficulty in measuring the use of strategic sourcing contracts. Detailed data to track spending on existing strategic sourcing

contracts presents a critical challenge. FPDS-NG provides spending data by product service code, but the products and services targeted by most strategic sourcing initiatives are only a subset of these much broader categories.

The Army represented 48.7% of total spend using Time and Material (T&M) contract type for FY2012 (DoD Spend Analysis). Army also spends using mostly Delivery Orders because they are Multiple Award Contracts (MAC). Selecting a contract type that best meets the needs of the requirement reduces the exposure to risks. The Army used T&M contract types because of the type of services being procured. The outcome or result may not necessarily be known. In some cases, the Army is procuring a series of ideas or innovative technology. T&M contracts are considered risky mainly because of lack of oversight. Resources for skilled oversight is limited and expected to be more limiting in the next fiscal year. FY2012 DoD Acquisition Status Report indicated that T&M contract types were high risk and their use should be curtailed.

Current DoD strategic sourcing efforts are underdeveloped compared to size and scope of commercial sector strategic sourcing. Commercial Sector usually have direct involvement of senior leadership. When FY2011 DBB Task Group interviewed IBM and Ford, they indicated that strategic sourcing was embraced as a critical management philosophy as they were spiraling downhill and during this period of funds being restrained in a global environment they concentrated on shared process improvement.

The following tools are applied in strategic sourcing in the commercial sector:

- Total Cost of Ownership tools are applied to understand the life cycle costs of a product or service
- Supplier Scorecards to apply a weighted performance assessment of multiple performance dimensions to supplier RFP's
- Supplier Relationship Management tools to develop improved communication and transparency on contracts to drive cost savings are all commonplace in the application of strategic sourcing in the private sector.

The skills for application of these tools should be part of a contracting officer's capabilities, but indications are they may not be skilled in these areas (Supply Chain Management, 2012). It is quite evident that additional training is needed for a successful strategic sourcing program which has to be tailored to the unique mission of the

organization. Another obstacle that needs to be addressed is that due to retirements predicted by human resource and budget constraints, the skilled acquisition workforce will be reduced significantly.

The structure of an agency's strategic sourcing program is usually one or two full time employees who are expected to coordinate strategic sourcing across the entire organization. The Army, which managed more annual procurement spending than any other government agency in FY2011, currently does not have a formal strategic sourcing program office (U.S. Government Accountability Office, 2012). The strategic sourcing function presently lies within the Policy and Oversight Directorate under the Deputy Assistant Secretary of the Army for Procurement (GAO). Navy and Air Force has set up Strategic Sourcing Governance structures.

Supply Management must be addressed. The Army is in the process of developing a Global Combat Support System (GCSS). The necessity for this is realized in a letter from Congress, dated April 3, 2013 to DPAP regarding concerns about a DoD Inspector General (IG) report that found Boeing overcharged the Army as much as 177,475 percent for Apache and Chinook helicopter spare parts, resulting in \$13 million in "more than fair and reasonable prices." The parts included \$71.01 for a straight pin that DoD already had for 4 cents, \$1,678.61 for ramp gate roller assembly that DoD already had for \$7.71, and \$644.75 for a spur gear the Department had previously purchased for \$8.72. The IG found DoD already had up to \$242.8 million of excess inventory for these systems. Some of these overcharges were for parts Boeing had obtained from the Department only to turn around and sell the parts to the Army for a 35% profit. Boeing is supposed to refund the Army over \$11.3 million in excess profits. This is an example of how inefficient processes can be costly. Managing your supply is critical if you are leveraging the volume of supplies and services to negotiate a price. If the supply base is mis-managed than you have lost your savings from leveraging.

The DoD IG also found that Sikorsky had overcharged the Army "\$11.8 million, or 51.4 percent more than fair and reasonable" for UH-60 helicopter parts. In this case, the overcharges included \$2,393.41 for a plastic wiring box cover worth \$181.70, \$7,814.88 for a rotor used to cool radiator oil worth \$1,536.65, and \$284.46 for a flush

door ring worth \$8.37. If left uncorrected, the IG believed the Army would “pay excessive profits of \$16.6 million over the remaining two years of the contract.” The report also noted that the Army Aviation and Missile Life Cycle Management Command needed to correct the prices and seek another \$11 million in refunds. Regarding Sikorsky, concerns were also raised about Contracting Officers not adhering to Defense Contract Audit Agency (DCAA) field pricing assist audit. This situation may affirm the fact that the acquisition workforce requires additional training, especially if strategic sourcing will succeed.

#### **D. SUMMARY**

It is apparent that the Army is still facing some challenges that may be impeding progress on strategic sourcing. The Army spends a significant amount on services. Based on DoD FY2012 Spend Analysis for Services, Supplies and Equipment issued May 7, 2013, the Army is the biggest spender in four to nine portfolio groups. The groups are Knowledge Based Services, Logistics Management Services, Facility Related Services and Construction Services. The Army represented 34.9%/\$66.6B of total DoD spend.

The skill sets needed for strategic sourcing should be part of a contracting officer’s capabilities, but indications are they may not be skilled in these areas. The Administrator of the Office of Federal Procurement Policy at OMB replied in a Senate Committee Hearing when ask if agencies require training for strategic sourcing; training is a key factor, especially in light of the fact that one third of the contracting work force is pushing up against retirement age and another third has less than four years of experience under their belts (GOVWIN). Additional training may be needed for a successful strategic sourcing program, which has to be tailored to the unique mission of the organization. BBP initiative emphasizes the importance of trained acquisition professionals. The DoD FY2013 budget supported continued strengthening of the acquisition workforce to ensure sufficient workforce capacity and capability and continued efforts to strengthen the quality, readiness and performance results of the acquisition workforce.

Budget restraints can affect resources needed for strategic sourcing. This may be the reason why a formal Strategic Sourcing office has not been implemented. The Army Business Council, which is all inclusive of business systems, does capture a portion of acquisition processes for oversight.

## V. CONCLUSION

### A. RECOMMENDATIONS FOR FUTURE RESEARCH

Communication between all stakeholders is a must. Contracting officers should work closely with their program manager/customer. Milestones should be developed to outline the steps from requirement generation to contract execution. Dates should not change unless senior management has reviewed and approved.

Stakeholder Group		Stakeholders
Internal	Oversight, Facilitators and Implementers	Component / Service Acquisition Executives
		Chief Financial Officers
		Chief Information Officers
		OSD Office of Small Business Programs
		Services Acquisition (SA)
		Strategic Sourcing Director's Board
	Users, Related Programs and Other DoD Interests	Heads of Contracting Activities
		Acquisition Workforce Professionals
		Program Executive Officers
		Program Managers
		Competition Advocates
		Offices of Small and Disadvantaged Business Utilization
		End Customers (Warfighters)
External	Oversight and Indirect Interests	OMB, GAO, Congressional Committees, IG Offices, Defense Business Board and Defense Science Board
		Government and Agency Leadership
		Small Business Administration
		Taxpayers
	Commercial Interests	Suppliers
		Industry Best Practice Groups
		Industry Interest Groups
		Small Business Interests
	Government and Other Interests	Federal, State and Local Agencies
		Academic Institutions

Figure 4. DoD Wide Strategic Sourcing Program Stakeholders  
(From DPAP Defense Procurement and Acquisition Policy, 2013c)

Senior leadership should be supportive and provide endorsement of strategic sourcing for major programs/projects for those responsible for oversight and execution. The Army should be involved to ensure a DoD leveraged approach to obtaining supplier support. Based on a GAO 2012 report, the Defense Logistics Agency (DLA) has the most mature strategic sourcing effort underway. Recommend coordination with activities that

have had successes in strategic sourcing and use lessons learned from DoD. Also review best practices from the commercial sector who has been strategic sourcing for the last ten or more years. Walmart is well known for this type of effort. The difference that needs to be recognized is the urgency and need for the services has to be timely due to the mission of the Army.

Recommend conducting supplier risk assessments as part of the strategic sourcing process on an ongoing basis. A relationship should be established with suppliers so that risks can be assessed, achieve a better understanding of the strategic direction of the supplier, and determine financial health of suppliers.

Procurement's focus needs to shift from lowest cost to best value taking into account the supplier quality and reliability. Procurement should be involved early in the development of product or services. Recommend a process that allows for review and modification as market conditions change or strategy changes.

Recommend utilizing the Prices Paid Tool when it is fully functioning. It is a database, which has been developed as part of the FSSI. The purpose of this database is to provide visibility on the prices paid by government agencies for goods and services. It is currently in the pilot stage. This will be a useful tool in reducing total cost of ownership. This has the potential to assist with market research, negotiations and market behaviors (GSA StrategicSource.gov., n.d.b.).

The Army's spend is in knowledge-based services which in some categories may have fewer suppliers therefore it may be necessary to negotiate cost drivers to get the best value. The Army is using a large number of Time & Material (T&M) contract type. BBP initiative requires contracting officers to consider incentive type contracts. The contract type must be tailored to each particular product or services acquisition.

The resources that the Army's Policy and Oversight Directorate has allocated to strategic sourcing must be evaluated to determine if they are sufficient for the Directorate to fulfill its strategic sourcing mission. Establishing metrics by measuring cost savings for progress and success is an area of concern. Capturing all spend data relative to strategic sourcing and cost savings is a challenge that must be addressed.

## **B. CONCLUSION**

Strategic sourcing promotes an acquisition process that meets government needs and ensures that government is getting the best value for taxpayer dollars (GSA StrategicSource.gov., n.d.a).

Strategic Sourcing:

- Drives Efficient Government Operations
  - Provides visibility into spending habits
  - Lowers Total Cost of Ownership through data analysis
  - Creates commodity expertise
  - Enables better and more informed decisions by employees
  - Minimizes complexity for end-users
- Improves Vendor Performance
  - Increases clarity of requirements
  - Optimizes supplier relationships
  - Encourages new and innovative solutions
  - Improves competition & contract structures
  - Improves vendor ability to meet performance goals
- Supports Administration Goals
  - Helps agencies achieve the President's savings target of \$40B
  - Enables right sizing of the acquisition workforce by minimizing redundant contracts & activities
  - Uses Federal acquisitions to drive sustainable and socio-economic goals
  - Increases transparency & accountability

When implemented government-wide through the Federal Strategic Sourcing Initiative (FSSI), Strategic Sourcing also encourages cross-agency collaboration and allows the government to aggregate requirements and reduce redundant contracting activities.

The Army has embraced Strategic Sourcing but at a slow pace. The challenges that may be the reason for the slow pace may be lack of resources, acquisition personnel

not having the needed skill sets, program offices reluctance to change, no knowledge to prepare an opportunity assessment, services is difficult to sourced due to fewer suppliers, no senior leadership involvement, and lack of recognition that this is a team effort for all stakeholders.

GAO reported that officials at several agencies noted that the lack of trained acquisition personnel made it difficult to conduct an opportunity analysis and develop an informed sourcing strategy. Army also stated a need for expertise in strategic sourcing and spend analysis data, and OMB officials stated that a key challenge is the lack of strategic sourcing expertise in government. The Army's savings thus far as a result of strategic sourcing is by far too minimal based on FY2012 data.

In 2012, OMB issued a goal for agencies to strategic source two new products or services in 2013 and 2014, which yields 10% savings (GAO).

## **APPENDIX**

### **EXECUTIVE OFFICE OF THE PRESIDENT OFFICE OF MANAGEMENT AND BUDGET WASHINGTON, D.C. 20503**

May 20, 2005

MEMORANDUM FOR CHIEF ACQUISITION OFFICERS  
CHIEF FINANCIAL OFFICERS  
CHIEF INFORMATION OFFICERS

FROM: Clay Johnson III

Deputy Director for Management

SUBJECT: Implementing Strategic Sourcing

The federal government spends approximately \$300 billion on goods and services each year, and federal agencies are responsible for maximizing the value of each dollar spent. Therefore, agencies need to leverage spending to the maximum extent possible through strategic sourcing. Strategic sourcing is the *collaborative* and *structured* process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. This process helps agencies optimize performance, minimize price, increase achievement of socio-economic acquisition goals, evaluate total life cycle management costs, improve vendor access to business opportunities, and otherwise increase the value of each dollar spent.

Each agency's Chief Acquisition Officer (CAO), Chief Financial Officer (CFO), and Chief Information Officer (CIO) are responsible for the overall development and implementation of the agency strategic sourcing effort, which begins with a spend analysis and the identification of commodities for which strategic sourcing should be implemented. The CAO shall lead the CAO/CFO/CIO development team and will take the following actions:

1. Not later than October 1, 2005, the CAO shall identify no fewer than three commodities that could be purchased more effectively and efficiently through the application of strategic sourcing, excluding software that could be purchased under the SmartBuy program. Agencies may include existing strategic sourcing efforts for this purpose.
2. The CAO shall lead the collaborative development of an agency-wide strategic sourcing plan in coordination with the agency CFO, CIO, representatives from the agency's Office of Small and Disadvantaged Business Utilization, and other key stakeholders, as appropriate. The plan should reflect the application of sound program and project management principles. At a minimum, the plan should include the following elements: 2

- a. Strategic Sourcing Governance—A charter should be developed outlining the members, roles, responsibilities, and operations of an agency-wide Strategic Sourcing Council and any commodity councils to be formed.
  - b. Strategic Sourcing Goals and Objectives—The Strategic Sourcing Council should establish annual strategic sourcing goals and objectives, by fiscal year. These goals and objectives should include existing strategic sourcing efforts, as well as prioritizing new initiatives. In addition to cost and performance goals, any strategic sourcing plan must be balanced with socio-economic goals for small businesses, small disadvantaged businesses, women-owned small businesses, veteran-owned businesses, service-disabled veteran-owned businesses, HUB-Zone and preference programs (e.g., Javits-Wagner-O'Day), and others, as appropriate.
  - c. Performance Measures—The agency Strategic Sourcing Council should establish agency-wide performance measures and reporting requirements in order to monitor and continuously improve the strategic sourcing program.
  - d. Communications Strategy—The Strategic Sourcing Plan should also include a communication strategy that clearly conveys senior management's commitment to the effort, describes the scope of the effort, and identifies any organizational changes. The communications strategy should also include steps to make agency employees aware of awarded strategic sourcing contracts and how they are to be used.
  - e. Training Strategy—The plan should identify actions necessary to educate agency personnel to support effective and efficient strategic sourcing implementation and management.
3. Beginning in January 2006, the CAO shall report annually to the Office of Federal Procurement Policy (OFPP) regarding, at a minimum, reductions in the prices of goods and services, reductions in the cost of doing business, improvements in performance, and changes in achievement of socio-economic acquisition goals at the prime contract and, if possible, the subcontract level. Agencies shall develop methodologies for establishing baseline data and subsequent changes to this baseline and shall consistently apply this methodology throughout the strategic sourcing process.

Using information from the agency reports and other data sources, OFPP may identify several commodities that could be strategically sourced government-wide, and will establish an interagency structure for managing the acquisition of these commodities.

To facilitate the development of a strategic sourcing community and build a subject matter expert network, agencies shall identify a strategic sourcing point of contact. Please submit the person's name, title, telephone number, and e-mail address to Lesley Field at OFPP by July 1, 2005 (lfield@omb.eop.gov).

Maximizing value for taxpayers is a top priority for OMB, and I look forward to working with the acquisition community on this important initiative.

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